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## ABSTRACT

One institution's approach to internationalizing its introductory accounting course is described. The change was triggered by accreditation requirements and personal interests, and was intended to provide students with information about international aspects of accounting. Initially, modules were developed to supplement the regular course content. At the end of the course, four class periods were devoted to: (1) deciphering foreign financial statements with different valuation bases; (2) alternative methods of establishing accounting standards; (3) international standards and organizations; and (4) foreign currency translation. In general, students responded favorably to the modules and tested reasonably well on the materials presented. However, the students reported that some aspects of the approach caused concern, including the lack of suitable materials, dependence on lecture presentation, and students' perceptions of the content as supplementary, and therefore unimportant. As a result, the course objective was broadened to include the use of international components to foster an understanding of the nature of financial accounting information and reporting in the United States and comprehension of the degree to which that nature is a function of culture. International components were created to enhance all aspects of course content, and a supplementary text was added to the required materials. The costs were relatively low, and about 6 class hours were allocated to international topics. (MSE)

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# Internationalizing the Introductory Accounting Course

## A Case History of the Nitty Gritty

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Judith Ramaglia

April, 1988

Pacific Lutheran University

In: Proceedings of the Seventh Annual Eastern Michigan University Conference  
on Languages for Business and the Professions.

FL017853

## Internationalizing the Introductory Accounting Course A Case History of the Nitty Gritty

This case outlines a method currently used to internationalize an introductory financial accounting course. The approach has been developed over a six year period. During that time both the objectives of and approach to internationalization changed. This paper describes the nature of those changes and then presents outlines of the international components currently used in the course. It concludes with an assessment of the costs and benefits of the internationalization project.

The reasons for internationalizing often determine the method by which international elements are added to a course. In this case the internationalization of the introductory accounting course was initially triggered by accreditation requirements and personal interests. The objective was to provide students with basic information about international aspects of accounting. Thus, international modules were developed to supplement the regular content. At the end of the course four class periods

were devoted to the following issues: (1) deciphering foreign financial statements with "different" valuation bases, e.g. the replacement cost based statements of Phillips of the Netherlands; (2) alternative methods of establishing accounting standards, e.g. the U.S. approach versus those used in France and the U.K.; (3) international standards and organizations, i.e. the International Accounting Standards Committee and the European Economic Community; and (4) foreign currency translation.

In general, the students responded favorably to the modules and tested reasonably well on the material presented in them. However, certain aspects of the approach caused some concern. At the time (1982) there was a relative insufficiency of suitable materials available for students at the introductory level. Many potential reading assignments required extensive supplementary explanations or advanced technical skills not taught in the course. As a consequence, the presentation mode was nearly all lecture. Furthermore, as the material was not presented in the textbook, students appeared to perceive it as "extra". Some commented that although it was interesting, it was not really necessary (only "supplementary") and, therefore, "less important". It appeared that this notion was reinforced by the fact that the international

materials were presented at the end of the course, after all the materials in the basic text had been completed.

These comments and perceptions caused reexamination of the objectives of and approach to the internationalization process. As a consequence, the objective was broadened. The new objective was to use international components to create in students a keen understanding of the nature of financial accounting information and reporting in the United States and the degree to which that nature is a function of our culture.

International components were created to enhance students' understanding of all aspects of the course content-- from the seemingly mundane (format and presentation of statements), through the abstruse (valuation principles and measurement issues), to the highly controversial (the politics of standard setting). The previously-described modules were revised and expanded. In addition, a number of international "elements" were added. "Elements" are individual items used to highlight a particular point or issue of U.S. reporting by providing an international basis for comparison. The elements and modules were integrated throughout the course. Each component

has dual goals: (1) to meet the immediate objectives specified in the individual module or element and (2) to meet the broad objective of internationalization by contributing to students' understanding of the social and cultural determinants of accounting. A supplementary text [Mueller, Gernon, and Meek's Accounting, An International Perspective (Irwin, 1987)] was added to the required materials. This text is easily comprehended by the students and relatively inexpensive. It provides the basic readings assigned for the modules.

The following section begins with an outline of the topics covered in this introductory financial accounting course. It should be noted that the course is oriented to the use (rather than the preparation) of financial statements and is, accordingly, quite conceptual. The outline of topics in the course indicates where each of the elements and modules is presented. The course outline is followed by a description of each of the elements and modules currently used in the revised course. For each item objectives are explained, content indicated, and techniques described.

### Topics Covered in Introductory Financial Accounting

1. Accounting and its role in society (Element #1)
2. Present value approach to investment decisions
3. Income determination (Element #2)
4. Statement of financial position (Element #3)
5. Statement of cash flows
6. The accounting cycle
7. Dissemination and content of corporate financial reports - ratio analysis
8. Policy and institutional structure of accounting standard setting - the FASB and the SEC (Module #1)
9. Auditing- (Element #4)
10. Alternative valuations - current cost and price level adjustments (Module #2)
11. Revenue recognition - long-term contracts and installment sales
12. Receivables and bad debts
13. Inventories
14. Property, plant, and equipment
15. Intangibles
16. Liabilities
17. Deferred taxes
18. Shareholders' equities; dividends, splits, and treasury stock
19. Intercompany investment
20. Foreign currency translation (Module #3)
21. Disclosures: geographic segments, lines of business, and so forth (Module #4)
22. Institutional setting of international accounting standard setting (Module #5)

**Element #1** - (15 minutes)**Objective** : provide background on international nature of accounting**Handouts** : none

In the first class meeting students are informed that the primary objective of the course is to teach them to understand financial accounting information. The annual report of a publicly traded corporation is distributed. This year the 1986 report of Johnson & Johnson is being used. The contents and general organization of the report are discussed. In the examination of the statement of financial position students encounter the "cumulative currency translation adjustment" in the shareholders' equity section. This is a natural lead-in to discussion of the multinational character of business and of accounting as the international language of business. The language metaphor is a motif of the course. Accounting is treated as an international language with various "dialects".

In this first element the basic history of the development and spread of accounting is conveyed. The story of Fra Luca Pacioli, the spread of accounting to Northern Europe and the arrival of British auditors in America are briefly described. These descriptions are followed by a brief summary



of the re-export of accounting from the U.S. and the international expansion of large accounting firms.

Teaching references: (1) Derek T. Bailey's "European Accounting History" in International Accounting, edited by H. Peter Holzer (Harper and Row, 1984); (2) Mary E. Murphy's "The British Accounting Tradition in America" in Journal of Accountancy, April, 1961, pp. 54-63; and (3) "Introduction" to Mueller, Gernon, and Meek's Accounting. An International Perspective, pp. 1-8.

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**Element #2 - (8-10 minutes)**

**Objective:** reinforce the components of income in the U.S.

**Handouts:** income statements from (1) Johnson & Johnson (1986) and (2) the Saab-Scania Group (1985, Swedish) and (3) the Saab-Scania note on appropriations.

As the statements are compared, attention is drawn to the Swedish deduction of "appropriations" (and the related note). The notions of "income smoothing" and "reserves" are discussed, and the constraints on elements allowed on the income statement in the U.S. are enumerated. Then, discussion as to why the U.S. has chosen this approach is generated.

# 1986 INCOME STATEMENT FROM JOHNSON & JOHNSON

<u>Johnson &amp; Johnson and Subsidiaries</u>	<u>Consolidated Statement of Earnings and Retained Earnings</u>		
<i>Dollars in Millions Except Per Share Figures (Note 1)</i>	1986	1985	1984
<b>Revenues</b>			
Sales to customers (Note 3)	\$7,002.9	6,421.3	6,124.5
Other revenues			
Interest income	99.9	107.3	84.5
Royalties and miscellaneous	65.0	48.1	38.0
<b>Total revenues</b>	<b>7,167.8</b>	<b>6,576.7</b>	<b>6,247.0</b>
<b>Costs and expenses</b>			
Cost of products sold	2,630.1	2,594.2	2,469.4
Selling, distribution and administrative expenses	2,867.9	2,516.0	2,488.4
Research expense	521.3	471.1	421.2
Interest expense	87.4	74.8	86.1
Interest expense capitalized	(21.8)	(28.9)	(35.0)
Redirection charges (Note 2)	540.0	—	—
Other expenses (Note 3)	152.1	50.3	61.8
<b>Total costs and expenses</b>	<b>6,777.0</b>	<b>5,677.5</b>	<b>5,491.9</b>
Earnings before provision for taxes on income	390.8	899.2	755.1
Provision for taxes on income (Note 9)	61.3	285.5	240.6
<b>Net earnings (Notes 2 and 3)</b>	<b>329.5</b>	<b>613.7</b>	<b>514.5</b>
Retained earnings at beginning of period	3,499.6	3,119.1	2,824.5
Cash dividends paid (per share: 1986, \$1.375; 1985, \$1.275; 1984, \$1.175)	(244.7)	(233.2)	(219.9)
<b>Retained earnings at end of period</b>	<b>\$3,584.4</b>	<b>3,499.6</b>	<b>3,119.1</b>
<b>Net earnings per share (Notes 1, 2 and 3)</b>	<b>\$ 1.85</b>	<b>3.36</b>	<b>2.75</b>

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1985 INCOME STATEMENT FROM SAAB-SCANIA GROUP (SWEDISH)

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## Consolidated Statement of Income

SEK millions		1985	1984
Operating revenue	Sales	31,840.2	25,955.7
Operating expenses	Manufacturing, selling and administrative expenses (Note 1)	-28,339.1	-22,636.9
Operating income before depreciation		3,501.1	3,318.8
Depreciation according to plan (Note 2)		-993.1	-845.6
Operating income after depreciation		2,508.0	2,473.2
Financial income and expenses	Dividends	32.8	28.4
	Interest income (Note 3)	1,009.8	885.4
	Interest expenses (Note 3)	-860.7	-927.9
	Currency differences (Note 4)	70.9	63.0
Income after financial income and expenses		2,760.8	2,522.1
Extraordinary income and expenses (Note 5)		15.2	32.5
Income before appropriations and taxes (Note 6)		2,776.0	2,554.6
Appropriations (Note 7)		-1,540.8	-1,444.8
Income before taxes		1,235.2	1,109.8
Taxes (Note 8)		-587.4	-421.1
Income after taxes		647.8	688.7
Minority interest in subsidiaries' profit (Note 9)		-5.1	-6.6
Net income		642.7	682.1
Income per share, after full taxes, SEK (Note 10)		60.00	56.35
Income per share, after taxes paid, SEK (Note 10)		92.10	87.35
Pre-tax return on total assets		14.5%	16.4%
After-tax return on stockholders' equity		18.0%	20.5%

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**"Appropriations" note from page 46 of Saab-Scania's 1985 report**

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**Appropriations and  
Untaxed Reserves**

Tax legislation in Sweden and in certain other countries permits allocations to be made to reserves of various types. In that way companies can, within specified limits, retain earnings in the business without subjecting them to immediate taxation.

The year's allocations to, and transfers from, these reserves are shown in the income statement under the heading "Appropriations." The aggregate value of such provisions is included with untaxed reserves in the balance sheet.

Untaxed reserves are not subject to taxation until they are utilized. However, in the event that operations prove to be unprofitable, untaxed reserves can be utilized to cover such losses without incurring a liability to pay tax.

**Element #3 - (10 minutes)**

**Objective**: reinforce the format of the balance sheet in the U.S.

**Handouts**: Balance sheets from (1) Johnson & Johnson (1986) and (2) the British Petroleum Company

In comparing the reports attention is drawn to the ordering and presentation in each case. British Petroleum lists its fixed assets first and current ones second. It also nets assets against liabilities so that the final totals presented are "net assets" and "BP shareholders' interest". The Johnson & Johnson report, with its standard U.S. focus on the equality of "total assets" and "total liabilities and stockholders' equity", is contrasted with the BP approach. The intent is to provide a basis of comparison so that students might (1) attend to the specifics of standard formats in the U.S. and (2) be reminded that the particular format choices made in the U.S. are not the only possible selections that one might make.

# 1986 JOHNSON & JOHNSON STATEMENT OF FINANCIAL POSITION

## Johnson & Johnson and Subsidiaries Consolidated Balance Sheet

At December 28, 1986 and December 29, 1985, Dollars in Millions (Note 1)	1986	1985
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash items	\$ 166.7	129.2
Marketable securities, at cost, which approximates market value	785.8	606.4
Accounts receivable, trade, less allowances \$40.5 (1985, \$39.7)	856.6	959.4
Inventories (Note 4 and 5)	1,010.5	955.1
Prepaid expenses and other receivables (Notes 2 and 9)	382.0	246.4
<b>Total current assets</b>	<b>3,201.6</b>	<b>2,896.5</b>
<b>Marketable securities, non-current</b> , at cost, which approximates market value	<b>156.4</b>	<b>148.7</b>
<b>Property, plant and equipment</b> , net (Notes 1 and 6)	<b>1,916.3</b>	<b>1,839.9</b>
<b>Deferred taxes on income</b> (Note 9)	<b>43.2</b>	<b>—</b>
<b>Intangible assets</b> , net (Notes 1 and 7)	<b>393.1</b>	<b>76.9</b>
<b>Other assets</b>	<b>166.1</b>	<b>133.1</b>
<b>Total assets</b>	<b>\$5,876.7</b>	<b>5,095.1</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities</b>		
Loans and notes payable (Note 8)	\$1,010.3	229.3
Accounts payable	512.3	401.4
Accrued liabilities (Note 2)	502.2	328.7
Taxes on income	94.2	65.3
Salaries, wages and commissions	116.7	95.1
Miscellaneous taxes	57.0	52.5
<b>Total current liabilities</b>	<b>2,292.7</b>	<b>1,172.3</b>
<b>Long-term debt</b> (Note 8)	<b>241.9</b>	<b>185.3</b>
<b>Deferred taxes on income</b> (Note 9)	<b>—</b>	<b>121.3</b>
<b>Certificates of extra compensation</b> (Note 14)	<b>58.5</b>	<b>58.0</b>
<b>Deferred investment tax credits</b> (Note 1)	<b>30.3</b>	<b>40.2</b>
<b>Other liabilities</b>	<b>429.1</b>	<b>167.1</b>
<b>Stockholders' equity</b>		
Preferred stock—without par value (authorized and unissued 2,000,000 shares)	—	—
Common stock—par value \$1.00 per share (authorized 270,000,000 shares; issued 191,834,000 and 191,832,000 shares)	191.8	191.8
Additional capital	186.2	247.6
Cumulative currency translation adjustments (Note 10)	(171.9)	(291.9)
Retained earnings	3,584.4	3,499.6
	<b>3,790.5</b>	<b>3,647.1</b>
<b>Less common stock held in treasury</b> , at cost (18,984,000 and 8,980,000 shares)	<b>966.3</b>	<b>296.2</b>
<b>Total stockholders' equity</b>	<b>2,824.2</b>	<b>3,350.9</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$5,876.7</b>	<b>5,095.1</b>

# 1985 BRITISH PETROLEUM COMPANY BALANCE SHEET

## ANNUAL ACCOUNTS BALANCE SHEETS

	Note	£ million			
		Group		Parent	
		1985	1984	1985	1984
<b>At 31 December 1985</b>					
<b>Fixed assets</b>					
Intangible assets – exploration expenditure	13	1,281	1,852	—	—
Tangible assets	14	15,604	17,803	—	—
Investments	15	1,351	1,583	1,702	1,813
		18,236	21,238	1,702	1,813
<b>Current assets</b>					
Stocks	16	4,163	5,097	—	—
Debtors	17	5,562	5,564	2,086	2,244
Investments	18	1,286	1,114	701	308
Cash at bank and in hand		919	1,201	2	1
		11,930	12,976	2,789	2,553
<b>Creditors – amounts falling due within one year</b>					
Finance debt	19	1,328	2,217	—	6
Other creditors	20	7,328	7,837	1,309	1,292
<b>Net current assets</b>		3,274	2,922	1,480	1,255
<b>Total assets less current liabilities</b>		21,510	24,160	3,182	3,068
<b>Creditors – amounts falling due after more than one year</b>					
Finance debt	19	3,802	4,841	27	27
Other creditors	20	2,859	2,467	13	13
<b>Provisions for liabilities and charges</b>					
Deferred taxation	8	408	469	—	—
Pension, insurance and other	21	1,157	475	—	—
<b>Net assets</b>		13,284	15,908	3,142	3,028
<b>Minority shareholders' interest</b>		3,376	4,365	—	—
<b>BP shareholders' interest</b>		9,908	11,543	3,142	3,028
<b>Represented by:</b>					
<b>Capital and reserves</b>					
Called up share capital	22	469	468	469	468
Share premium account	23	926	913	926	913
Reserves	24	8,513	10,162	1,747	1,647
		9,908	11,543	3,142	3,028

**Module 1**

**Objective:** to convey the notion that accounting is a social artifact that is influenced by its environment and to reinforce understanding of US investor orientation in financial accounting

**Handouts:** none

Assigned reading: Mueller, Gernon, and Meek: Chapter 1- "An International Perspective on Financial Accounting"

Assigned Exercises: p. 19, #3, #4 (discussion of variables and groups affecting accounting orientations)

This chapter discusses the ways in which accounting is shaped by its environment and the major variables involved in the process, e.g., the nature of the capital markets, governments, legal systems and so forth. It also briefly explains the historical cost principle. Alternative orientations are contrasted with that of the U.S., and the reasons for the U.S. orientation are discussed.



**Element #4 - (30 minutes)**

**Objective:** to extend discussion of the nature of auditing in the U.S.

**Handouts:** audit reports from the following firms: British Petroleum (1985), Sanyo (1985), Saab-Scania (1985), Saint-Gobain (1985) [two forms], BSN (1986), and Johnson & Johnson (1986)

British Petroleum (1985) provides a "true and fair view" report. Sanyo's 1985 audit report is quasi-U.S. and indicates where its financial statements do not comply with U.S. requirements. The Saab-Scania report is from the statutory auditors. The Saint-Gobain 1985 statements present two audit reports, one is statutory and the other indicates compliance with the standards of the International Accounting Standards Committee. The BSN report indicates where their statements do not comply with U.S. gaap. All reports are contrasted with each other and with Johnson & Johnson's standard U.S. "present fairly" report. Again, cultural variables that produce such different reports are discussed.

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## British Petroleum - 1985 - audit report

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### REPORT OF THE AUDITORS

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#### To the Members of The British Petroleum Company p.l.c.

We have audited the accounts of The British Petroleum Company p.l.c. set out on pages 41 to 56. These have been prepared under the historical cost convention. Our audit has been carried out in accordance with approved auditing standards.

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group at 31 December 1985 and of the profit, changes in reserves and source and application of funds of the group for the year then ended and comply with the Companies Act 1985.

Ernst & Whinney  
Chartered Accountants  
London  
20 February 1986

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Sanyo - (Japan) - 1985 audit report

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## Report of Independent Public Accountants

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To the Board of Directors  
Sanyo Electric Co., Ltd.

We have examined the consolidated balance sheet of Sanyo Electric Co., Ltd. and Consolidated Subsidiaries as of November 30, 1985 and 1984, and the related consolidated statements of income, stockholders' equity and changes in financial position for each of the three years in the period ended November 30, 1985, all expressed in yen. Our examinations were made in accordance with generally accepted auditing standards in the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The information relating to segments of a business enterprise required to be disclosed in financial statements by Statement of Financial Accounting Standards No. 14 under accounting principles generally accepted in the United States of America is not presented in the accompanying consolidated financial statements.

In our opinion, except for the omission of the information referred to in the preceding paragraph, the aforementioned consolidated financial statements, stated in yen, present fairly the consolidated financial position of Sanyo Electric Co., Ltd. and Consolidated Subsidiaries at November 30, 1985 and 1984, and the consolidated results of their operations and changes in their consolidated financial position for each of the three years in the period ended November 30, 1985, in conformity with accounting principles generally accepted in the United States of America applied on a consistent basis.

*Coopers & Lybrand*

Osaka, Japan  
February 14, 1986

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**Saab-Scania (Swedish) - 1985 audit report**

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## **Auditors' Report**

We have examined the Annual Report of the Board of Directors and President, the Consolidated Financial Statements, the Accounts and the Administration of the Board of Directors and President for the year 1985. Our examination has been made in accordance with generally accepted auditing standards.

### **Parent Company**

The Accounts have been prepared in conformity with the Swedish Companies Act.

### **We recommend:**

- that the Statement of Income and the Balance Sheet be approved,
- that the earnings be disposed of as proposed in the Board of Directors' Report, and
- that the Board of Directors and the President be discharged from liability for their administration of the Company during the year 1985.

### **Group**

The Consolidated Financial Statements have been prepared in conformity with the Swedish Companies Act.

We recommend that the Consolidated Statement of Income and the Consolidated Balance Sheet be approved.

Linköping, March 19, 1986.

**Bengt Gunnhagen** **Bo Lillieström-Tjus**  
Authorized Public Accountant

## Saint-Gobain (French) - 1985 statutory audit report

# STATUTORY AUDITORS GENERAL REPORT

To the Shareholders,

We were appointed as your statutory auditors at the Annual Meeting of June 10, 1982. We set out below our report on the Company's financial statements for the year ended December 31, 1985.

### 1. Opinion on the financial statements

We have examined the annual financial statements and made such tests and procedures as we considered necessary in accordance with standards recommended by our profession.

The balance sheet which is presented to you totals FF 15,971,821,287.85 and net income amounts to FF 208,233,813.11 compared with FF 84,309,341.50 for the previous year.

As in the previous year, the Company's trade investments are normally valued taking into account an average obtained from using the following two factors:

- revalued net assets;
- a yield valuation based on the capitalization of cash flows of the last three years.

As at December 31, 1984 this method has not been used to value the investment in Société Générale d'Entreprises, which is based on the average quoted price in December 1985, or the investment in Spafi, as it is a holding company, which is carried taking into account the value of its holdings less a general reduction for the lack of yield.

Refunds of income taxes in application of the consolidated tax regulations are recorded in income when received. The amount of FF 146 million received in 1985 relates to the 1983 tax declaration (1984 - FF 270 million relating to the 1982 tax declaration) and has been credited to the provision for deferred taxes.

Finally, the tax credit of FF 144 million arising from the carryback of part of the tax losses in 1984 has been recorded in exceptional income of the year.

In our opinion, based on our examination and taking into account comments described above, the financial statements set out on pages 32 to 45 give a true and fair view of the financial position of the company and the results of its operations for the year then ended.

### 2. Examination of specific information

We have no comments to make on the sincerity of the information contained in the report of the Board of Directors concerning operations for the year or on the other documents for the attention of shareholders at the Annual General Meeting.

In order to comply with the requirements of article 356 of the law of July 24, 1966 we inform you of the following:

a) Holdings acquired during the year:  
The Company has increased its holding in Société Générale d'Entreprises to 32.48 % and now holds, directly or indirectly, over 50 % of the capital of this company.

b) List of shareholders holding over:

- 10 % of the capital:  
Société Française de Participations Industrielles;
- 50 % of the capital:  
French State.

Paris, May 20, 1986.

Statutory Auditors  
Members of the Paris Statutory  
Auditors' Association.

GONZAGUE LAURAS

BEFEC, MULQUIN  
& ASSOCIES

represented by  
R. Gonzalez P.-C. Mulquin

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**Saint-Gobain- (French) - 1985 -independent auditor's report**

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## JOINT AUDITORS' REPORT

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We have examined the consolidated balance sheets of Compagnie de Saint-Gobain and its subsidiaries as of December 31, 1985 and 1984 and the related consolidated statements of income and of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the consolidated financial statements of Compagnie Générale des Eaux, the investment in which is reflected in the accompanying financial statements using the equity method of accounting (see the note on accounting principles and policies and note 11). The Compagnie de Saint-Gobain's equity in earnings of Compagnie Générale des Eaux amounted to FF 110 million and FF 103 million for 1985 and 1984, and its investment in this company was FF 1,051 million and FF 990 million at December 31, 1985 and 1984 respectively. The consolidated financial statements of Compagnie Générale des Eaux were examined by its statutory auditors, whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Compagnie Générale des Eaux, is based solely upon the report of its statutory auditors.

The consolidated financial statements have been prepared in accordance with international accounting principles formulated by the International Accounting Standards Committee. These principles have been applied on a consistent basis after taking into account the modifications, with which we concur, concerning the recognition of interest income of subsidiaries operating in highly inflationary countries in 1985 (see the note on accounting principles and policies and note 4) and the harmonization of the method of accounting for production molds in the Containers Division in 1984 (see note 13).

In our opinion, based on our examination and the remarks above, the consolidated financial statements set out on pages 3 to 22 present fairly the financial position of the Compagnie de Saint-Gobain and its subsidiaries at December 31, 1985 and 1984, the results of their operations and the changes in their financial position for the years then ended in accordance with accounting principles formulated by the International Accounting Standards Committee.

BEFFC, MULQUIN  
& ASSOCIES  
Paul-Carlos Mulquin  
Ramon Gonzalez

GONZAGUE LAURAS

PRICE WATERHOUSE  
LONDON

PETITEAU SCACCHI & ASSOCIES  
MEMBERS OF PRICE WATERHOUSE  
Michael Moralee

Paris, June 6, 1986.

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**BSN - (French) - 1986- audit report**

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## STATUTORY AUDITORS AND INTERNATIONAL ACCOUNTANTS

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in financial position and stockholders' equity present a true and fair view of the financial position of BSN and its subsidiaries at December 31, 1985 and 1984 and the results of their operations and the changes in their financial position for the years then ended, in conformity with the accounting principles described in the notes, consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The members of Price Waterhouse confirm in addition that these accounting principles comply with those generally accepted in the United States of America.

Paris, March 28, 1986

Statutory  
auditors

H.-L. Charrier  
C. Guérard

International  
Accountants

M. Chauveau

*Blanchard Chauveau & Associés*  
*Members of Price Waterhouse*



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Johnson & Johnson - 1986 - audit report

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**Report of Independent Certified Public Accountants**

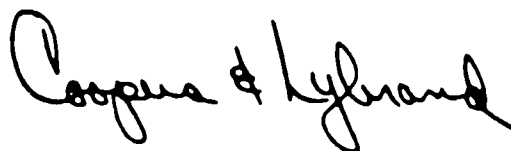
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To the Stockholders and Board of Directors of Johnson & Johnson:

We have examined the consolidated balance sheet of Johnson & Johnson and subsidiaries as of December 28, 1986 and December 29, 1985, and the related consolidated statements of earnings and retained earnings, common stock, additional capital and treasury stock, and cash flows for each of the three years in the period ended December 28, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Johnson & Johnson and subsidiaries at December 28, 1986 and December 29, 1985, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 28, 1986, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, New York  
February 11, 1987





## **Module 2**

**Objective**: to introduce and compare basic notions of current cost and price level adjusted accounting

**Assigned reading**: Mueller, Gernon and Meek- Chapter 5- "Comparative Recognition of Inflation and Other Price Changes"

**Assigned exercises**: pp. 41-42, "N.V. Cirts" #1 & 2 (converting a current cost Dutch convenience statement to U. S. principles)

The assigned chapter introduces students to the topic of changing prices and the effects on accounting measurements. It also provides them with an overview of general patterns of accounting for changing prices around the world. Despite the complexity of the topic, students are able to grasp the concepts and deal with elementary conversions from one basis to another. This skill is enhanced by the "N. V. Cirts" problem which the students prepare.

**Module 3**

**Objective:** introduce the basic notions of consolidations and foreign currency translation

**Handouts:** Footnote #10 from Johnson & Johnson 1986 report

**Assigned reading:** Mueller, Gernon, and Meck. -Ch 6 "Multinational Consolidation of Financial Statements"

**Assigned exercises:** "Parent and Subsidiary" (p.97) (simple consolidation) and "Beaucoup SA" (pp. 98-100) (simple translation exercises under alternative assumptions)

**Additional exercise:** students are required to read and summarize the footnote related to foreign currency translation in a U. S. report (Johnson & Johnson, 1986, note 10)

The assigned chapter outlines elementary consolidation and translation techniques. Although the level of presentation is very simple, students are able to understand and work with the basic requirements of FASB Statement 52. The Johnson & Johnson exercise reinforces the material and persuades students that foreign currency translations are a fact of life for most large U.S. firms.

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## Foreign Currency Translation Footnote- Johnson & Johnson (1986)

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### Not. 10. Foreign Currency Translation

For translation of its international currencies, the Company has determined that the local currencies of its international subsidiaries are the functional currencies except those in highly inflationary economies which are defined as those which have compound cumulative rates of inflation of 100% or more during the past three years.

In consolidating international subsidiaries, balance sheet currency effects are recorded in a separate component of stockholders' equity. This equity account includes the results of translating all balance sheet assets and liabilities at current exchange rates except for those located in highly inflationary economies, principally Argentina, Brazil and Mexico, which are reflected in operating results. These translation adjustments do not exist in terms of functional cash flows; such adjustments are not reported as part of operating results since realization is remote unless the international businesses were sold or liquidated.

An analysis of the changes during 1986 and 1985 in the separate component of stockholders' equity for cumulative currency translation adjustments follows:

<i>(Dollars in Millions)</i>	1986	1985
Beginning of year	\$(291.9)	(366.4)
Translation adjustments	120.0	74.5
End of year	\$(171.9)	(291.9)

Net currency transaction and translation gains and losses included in net earnings were losses of \$11.3, \$28.3 and \$23.7 million in 1986, 1985 and 1984, respectively, incurred principally in Latin America.

**Module 4**

**Objective:** make students aware of alternative disclosure possibilities and reinforce the nature of some U.S. requirements; reinforce format and content of U.S. income statements.

**Handouts:** none

**Assigned reading:** Mueller, Gernon, and Meek-Chapter 4-"Disclosure Practices Around the World"

**Assigned exercises:** "Bournemouth Ltd" (Convert valued added statement to traditional income statement), p. 71 and "Geographic Segment Disclosure" (provide arguments for geographic segment data), pp. 71-72.

This assigned reading provides basic information about geographic and product line disclosure requirements in the U.S. Additionally, it describes some of the nonfinancial disclosures typically found in non-U.S. reports (employee data, environmental discussions, and so forth). The "value added" statement that students prepare for "Bournemouth" produces good discussions of U.S. value systems and the role of business and the investor in the U.S.

## Module 5

Objective: to reinforce understanding of the political nature of standard setting; to provide basic information with regard to the institutional structure of international standard setting

Assigned readings: Mueller, Gernon, and Meek -Ch 2 - "Financial Reporting in the International Environment" and Ch 3 -"Setting Accounting and Auditing Standards Internationally"

Assigned exercises: "A Conflict of Standards" - p. 54 - requires responses to questions regarding the complex reporting situation faced by multinationals

Additional reading and exercise: students are required to read and summarize Jules W. Muis's "The 'Glasnostic' Features of European Accounting" Newsletter of the European Accounting Association, September, 1987, pp. 33-49.

Chapter 2 provides information on the alternative ways in which companies respond to the demand for information from foreigners, e.g. convenience statements, convenience translations, limited restatement, and so forth. Chapter 3 describes the International Accounting Standards Committee, the International Federation of Accountants, activities at the United Nations and the Organization for Economic Cooperation and Development, and various regional organizations. Students discuss the need for and difficulties of establishing international standards. The Muis article gives them a European view of the difficulties involved.

As can be seen from the course outline and the above-described elements and modules, student attention is drawn to international dimensions of accounting throughout the semester. The costs of such internationalization are relatively low. Students have approximately one hundred pages of reading in the supplementary text. The only other additional reading is the Muis article, which is seventeen pages. For the instructor, preparation requires obtaining suitable examples from foreign financial statements and having the overhead transparencies or photocopies made. Slightly more than six class hours are allocated to international topics. In every case, however, the international dimensions under discussion are used to clarify and reinforce student understanding of U.S. accounting. In addition, students become aware of alternative methods of accounting and the degree to which all accounting is molded by the culture which generates it.